

Shreveport Home Mortgage Authority
A Component Unit of the City of Shreveport

Independent Auditor's Reports and Financial Statements

December 31, 2012



Shreveport Home Mortgage Authority
A Component Unit of the City of Shreveport
December 31, 2012

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Independent Auditor's Report

Board of Trustees
Shreveport Home Mortgage Authority
Shreveport, Louisiana

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Shreveport Home Mortgage Authority (the Authority), a component unit of the City of Shreveport, Louisiana, which are comprised of a statement of net position as of December 31, 2012, and a statement of revenues, expenses and changes in net position and statement of cash flows and the related notes to the financial statements for the year ended December 31, 2012, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Shreveport Home Mortgage Authority as of December 31, 2012, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2013, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

BKD, LLP

June 27, 2013

Shreveport Home Mortgage Authority

A Component Unit of the City of Shreveport

Management's Discussion and Analysis

December 31, 2012

Introduction

This management's discussion and analysis of the financial performance of Shreveport Home Mortgage Authority (the Authority) provides an overview of the Authority's financial activities for the year ended December 31, 2012. It should be read in conjunction with the accompanying financial statements of the Authority.

Financial Highlights

The Authority's total net position decreased \$295,206, or 8.3%. Throughout the course of this year's operations, current year operating revenues, receipt of principal payments on outstanding mortgage-backed securities and the note receivable were used to pay the debt service on the outstanding bonds.

Nonoperating expenses increased in 2012 by approximately \$390,000. A debt defeasance loss of approximately \$200,000 was incurred due to early extinguishment of the 1995 Bonds and an unrealized loss on investments in 2012 of approximately \$100,000 was incurred in comparison to a \$90,000 unrealized gain on investments in 2011.

Using This Annual Report

The Authority's financial statements consist of three statements—a statement of net position; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the Authority, including resources held by the Authority but restricted for specific purposes.

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about the Authority's finances is "Is the Authority, as a whole, better or worse off as a result of the year's activities?" The statement of net position and the statement of revenues, expenses and changes in net position report information about the Authority's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority's net position and its activities. The Authority's total net position—the difference between assets and liabilities—is one measure of the Authority's financial health or financial position. Over time, increases or decreases in the Authority's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as local economic factors also should be considered to assess the overall financial health of the Authority.

The Statement of Cash Flows

The statement of cash flows, reports, cash receipts, cash payments and net changes in cash and cash equivalents resulting from four (when applicable) defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The Authority's Net Position

The Authority's net position is the difference between its assets and liabilities reported in the statement of net position, as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2012	2011
Assets		
Current assets	\$ 203,913	\$ 2,485,438
Noncurrent assets	9,660,819	8,848,297
Total assets	9,864,732	11,333,735
Liabilities		
Current liabilities	446,452	431,448
Long-term liabilities	6,176,678	7,365,479
Total liabilities	6,623,130	7,796,927
Net Position		
Restricted	609,482	1,292,433
Unrestricted	2,632,120	2,244,375
Total net position	\$ 3,241,602	\$ 3,536,808

The total assets of the Authority decreased by \$1,469,003 in the current year. This corresponds to the current year decrease in total liabilities of \$1,173,797. As cash flows from mortgage-backed securities and outstanding notes are received, payments are made on the existing debt.

The Authority's net position was \$3,241,602 at December 31, 2012. Of this amount, \$2,632,120 was unrestricted and represents funds owned by the Authority and not associated with an individual bond issue. Restricted net position is reported separately to show those amounts restricted by, and the use thereof governed by, the trust indenture for each bond issue.

Operating Results and Changes in the Authority's Net Position

In 2012, the Authority's net position decreased by \$295,206, or 8.3%, compared to a \$43,803 increase in net position in 2011 as shown in Table 2. This decrease is due to an increase in operating revenues by \$1,481 and nonoperating loss (\$393,769) due to lower investment return in 2012 compared to 2011 and debt defeasance loss associated with early extinguishment of the 1995 Bonds. Operating expenses decreased by \$53,279 in 2012 due to a decrease in bond related interest expense.

Table 2: Operating Results and Changes in Net Position

	2012	2011
Operating Revenues		
Interest on mortgage-backed securities and note receivable	\$ 353,440	\$ 409,789
Other operating revenues	68,893	11,063
Total operating revenues	422,333	420,852
Operating Expenses		
Interest on bonds	356,667	410,080
Other operating expenses	73,933	73,799
Total operating expenses	430,600	483,879
Operating Loss	(8,267)	(63,027)
Nonoperating Income (Loss)	(286,939)	106,830
Increase (Decrease) in Net Position	<u>\$ (295,206)</u>	<u>\$ 43,803</u>

Debt Administration

During the year ended December 31, 2012, the Authority reduced its long-term debt by \$1,153,367. No new debt was issued in 2012.

The 2003 Issue is a limited obligation of the Authority, payable solely from the pledged investments and the interest thereon. The Series 2003A Issue was redeemed through a Series 2003B Issue in 2007. The bonds in the 2004 Issue (Multi-Family – Refunding) are secured by the loan and by certain other resources and assets constituting the trust estate under the indenture. A credit enhancer also is contained in the trust indenture for the 2004 Multi-Family Issue that guarantees no loss will be incurred on the sale of the property should a default occur on the debt being serviced by the investor.

For additional information on debt (see *Note 4*).

Contacting the Authority's Financial Management

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Mr. James A. Burnett, 1400 Youree Drive, Shreveport, Louisiana 71101-4197.

Shreveport Home Mortgage Authority
A Component Unit of the City of Shreveport

Statement of Net Position

December 31, 2012

Assets

Current Assets

Cash and cash equivalents	\$ 192,569
Accrued interest receivable	11,344

Total current assets	<u>203,913</u>
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Noncurrent Assets

Investments	5,681,372
Note receivable	3,781,667
Unamortized bond issuance costs	197,780

	<u>9,660,819</u>
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Total assets	<u>9,864,732</u>
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Liabilities

Current Liabilities

Current portion of bonds payable	424,064
Accrued expenses	22,388

Total current liabilities	446,452
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Bonds Payable

	<u>6,176,678</u>
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Total liabilities	<u>6,623,130</u>
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Net Position

Restricted for debt service	609,482
Unrestricted	2,632,120

Total net position	<u><u>\$ 3,241,602</u></u>
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Shreveport Home Mortgage Authority
A Component Unit of the City of Shreveport
Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2012

Operating Revenues	
Interest on mortgage-backed securities and note receivable	\$ 353,440
Other operating revenues	<u>68,893</u>
Total operating revenues	<u>422,333</u>
Operating Expenses	
Interest on bonds	356,667
Amortization of issuance costs	19,005
Administrative expenses	<u>54,928</u>
Total operating expenses	<u>430,600</u>
Operating Loss	<u>(8,267)</u>
Nonoperating Expenses	
Loss on early extinguishment of debt	(204,436)
Investment loss	<u>(82,503)</u>
Total nonoperating expenses	<u>(286,939)</u>
Decrease in Net Position	(295,206)
Net Position, Beginning of Year	<u>3,536,808</u>
Net Position, End of Year	<u><u>\$ 3,241,602</u></u>

Shreveport Home Mortgage Authority

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Statement of Cash Flows

Year Ended December 31, 2012

Operating Activities

Interest payments received on mortgage-backed securities and note receivable	\$ 382,545
Principal payments received on mortgage-backed securities and note receivable	660,856
Interest paid	(377,097)
Principal payments on bonds	(728,367)
Payment to bond defeasance escrow agent	(425,000)
Payment for legal expenses related to debt defeasance	(102,505)
Cash paid for administrative expenses	(40,505)
Other	57,301
	<u>57,301</u>
Net cash used in operating activities	<u>(572,772)</u>

Investing Activities

Interest and dividends on investments	12,224
Purchases of investments	(1,700,000)
	<u>(1,700,000)</u>
Net cash used in investing activities	<u>(1,687,776)</u>

Net Decrease in Cash and Cash Equivalents (2,260,548)

Cash and Cash Equivalents, Beginning of Year 2,453,117

Cash and Cash Equivalents, End of Year \$ 192,569

Reconciliation of Operating Loss to Net Cash Used In Operating Activities

Operating loss	\$ (8,267)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Principal payments received on mortgage loans and note receivable	660,856
Principal payments on bonds	(728,367)
Payment to bond defeasance escrow agent	(425,000)
Amortization of bond issuance costs	19,005
Amortization of loan premium	17,513
Changes in operating assets and liabilities	
Other assets	14,423
Accounts payable and accrued expenses	(20,430)
	<u>(20,430)</u>
Net cash used in operating activities	<u><u>\$ (470,267)</u></u>

Schedule of Noncash Investing and Financing Activities

Unrealized investment loss	82,503
Loss on early extinguishment of debt	204,436

Shreveport Home Mortgage Authority

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Notes to Financial Statements

December 31, 2012

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

The Shreveport Home Mortgage Authority (the Authority) is a tax-exempt public trust, created pursuant to the constitution and laws of the state of Louisiana, particularly Chapter 2-A of Title 9 of the Louisiana Revised Statutes of 1950, as amended, and the trust indenture, dated October 24, 1978, with the City of Shreveport, Louisiana, as beneficiary. The Authority can transfer excess cash to the City of Shreveport. Pursuant to the trust indenture, the Authority is authorized to undertake various programs (funded primarily by the issuance of debt) to assist in the financing of housing for persons of low to moderate income in the City of Shreveport. Upon providing financing, the Authority invests funds in mortgage-backed securities, such as FNMA and GNMA mortgage pools consisting of loans originated in Shreveport. The Authority is a component unit of the City of Shreveport.

The Authority began operations on September 14, 1979, and has since been involved in numerous bond issues with various issues (the Issues) still outstanding as discussed in *Note 4*.

Bonds and other obligations issued under the provisions of the trust indenture are not a debt or liability of the state of Louisiana, the City of Shreveport or any political subdivision.

Basis of Presentation

The Authority prepares its financial statements as a business-type activity and the accounts of the Authority are organized by bond issue series, each of which is considered a separate accounting entity. The operations of each issue are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenues and expenses. The following fund types are utilized by the Authority:

- **Mortgage Purchase Program Funds** – These funds are used to account for the proceeds from mortgage revenue bonds, the debt service requirements of the bonds and the related mortgage-backed securities for housing in the City of Shreveport.
- **Operating Funds** – These funds are the general operating funds of the Issues. All income and expenses not directly attributable to the Mortgage Purchase Program Funds are accounted for in these funds.

Shreveport Home Mortgage Authority

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Notes to Financial Statements

December 31, 2012

- **Bond Fund** – In the 1995 Multi-Family Refunding Issue, the Bond Fund is used to account for the proceeds from the sale of the bonds, principal and interest payments on the note receivable and the debt service on the bonds.
- **Operating Account** – The Operating Account represents funds owned by the Authority, not associated with an individual Issue. The primary source of these funds is the semi-annual issuer's fee paid by certain Issues to the Authority, transfers of excess funds in the 1988 Issue and interest on loans received in the refunding of the 1979 Issue and investment income. Payments from this account are made to cover expenses of the Authority not provided for under any of the various bond indentures.

Interest earned on the investments and mortgage-backed securities in the Mortgage Purchase Program Funds is initially accounted for in those funds. The interest is then transferred to the respective bond fund's operating account when collected. To the extent monies are not available from the principal payments received on the mortgage-backed securities, the respective bond fund's operating account transfers monies to the Mortgage Purchase Program Funds in amounts sufficient to pay all interest and principal on the outstanding bonds.

Basis of Accounting

The Authority uses the accrual basis of accounting whereby expenses are recognized when the liability is incurred and revenues are recognized when earned. The Authority's financial statements are reported using the economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of the Authority are included on the statement of net position. The operating statements present increases (revenues) and decreases (expenses) in net position.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Authority's ongoing operations. The principal operating revenues of the Authority are interest charges on mortgage-backed securities and the note receivable. The principal operating expenses of the Authority are interest cost on outstanding bonds, related amortization of issue cost and administrative expenses.

Bond Issuance Costs

Costs related to issuing bonds are deferred and amortized using the interest method over the term of the bonds.

Notes Receivable

Notes receivable are stated at the outstanding principal balance. Interest income is recognized in accordance with the terms of the note. Notes past due more than 180 days, if any, are considered delinquent.

Shreveport Home Mortgage Authority

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Notes to Financial Statements

December 31, 2012

Provisions for Loan Losses

Provisions for losses on loans and accrued interest are charged to earnings when it is determined that the investment in applicable assets is greater than their estimated net realizable value. At December 31, 2012, estimated losses on loans were not material and, therefore, not recorded.

Cash and Cash Equivalents

The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2012, cash equivalents consisted primarily of money market accounts with brokers.

Investments and Investment Income

Investments, including mortgage-backed securities and mutual funds, are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income, realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of investments carried at fair value.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Net Position

Net position of the Authority is classified in two components. Net position restricted for debt service consists of funds that are reserved for outstanding bond payable balances. Unrestricted net position is remaining assets that do not meet the definition of restricted for debt service.

Note 2: Note Receivable

The note receivable is a \$3,781,667 note in the 2004 Multi-Family Refunding Issue due from an investor and maturing September 1, 2025. The note receivable bears interest at a fixed rate of 6.4%. Total principal and interest payments ranging from \$161,225 – \$170,425 are made on a semiannual basis through February 15, 2025. A final principal payment of \$2,260,000, plus interest is due on September 1, 2025. The note is collateralized by land, buildings and fixtures of the investor. The note receivable is the security for the bonds.

Shreveport Home Mortgage Authority

A Component Unit of the City of Shreveport

Notes to Financial Statements

December 31, 2012

Note 3: Deposits, Investments and Investment Income

Deposits

At December 31, 2012, the Authority has \$1,700,000 of certificates of deposit with less than one year of maturity.

Investments

State statutes authorize the Authority to invest in direct obligations of the United States Treasury, United States government agency obligations and Louisiana Asset Management Pool (LAMP), a local government investment pool. LAMP is administered by LAMP, Inc., a nonprofit corporation organized under the laws of the state of Louisiana.

The Authority's investment balance at December 31, 2012, consisted of the following:

Type	Fair Value	Maturities in Years			
		Less than 1	1 – 5	6 – 10	More than 10
FNMA pass-through mortgage certificates	\$ 342,384	\$ 3,424	\$ 48,790	\$ 91,588	\$ 198,582
GNMA pass-through mortgage certificates	3,638,988	36,390	518,556	973,429	2,110,613
Money market mutual funds	192,569	192,569	-	-	-
	<u>\$ 4,173,941</u>	<u>\$ 232,383</u>	<u>\$ 567,346</u>	<u>\$ 1,065,017</u>	<u>\$ 2,309,195</u>

- **Interest Rate Risk** – As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority's investment policy limits at least 65% of its investment portfolio to maturities of less than one-year (excluding mortgage certificates) and a maximum of 35% to maturities of one to more than ten years (excluding mortgage certificates).
- **Credit Risk** – Is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. All mortgage-backed securities are guaranteed by FNMA, GNMA, FHA or VA. The Authority's investment policy requires all securities to be investment-grade obligations. At December 31, 2012, the Authority's investments in money market mutual funds were rated Aaa by Moody's Investors Service and AAAm-G by Standard & Poor's. Investments in FNMA pass-through mortgage certificates are not rated.

Shreveport Home Mortgage Authority

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Notes to Financial Statements

December 31, 2012

- **Custodial Credit Risk** – For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Authority's investments are not subject to custodial credit risk.
- **Concentration of Credit Risk** – The Authority does not limit the amount that may be invested in any one issuer.

Applicable state statutes do not address credit quality ratings, concentration of credit risk by issuer or investment maturity limitations.

Summary of Carrying Values

The carrying values of investments shown above are included in the balance sheet as follows:

Carrying value	
Investments (including certificates of deposit)	<u>\$ 5,873,941</u>
Included in the following statement of	
net position captions	
Cash and cash equivalents	\$ 192,569
Noncurrent assets	
investments (including certificates of deposit)	<u>5,681,372</u>
	<u>\$ 5,873,941</u>

Investment Income

Investment income, including amounts earned on mortgage-backed securities and the note receivable, for the year ended December 31, 2012, consists of:

Operating revenues	
Interest on mortgage-backed securities	
and note receivable	\$ 353,440
Nonoperating expenses	
Investment (loss)	<u>(82,503)</u>
	<u>\$ 270,937</u>

Shreveport Home Mortgage Authority

A Component Unit of the City of Shreveport

Notes to Financial Statements

December 31, 2012

Note 4: Bonds Payable

Bonds payable at December 31, 2012, consisted of:

2004 Issue (Multi-Family – Refunding) – Multi-Family Housing Revenue Refunding Bonds, 2004 dated February 1, 2004 – \$4,360,000 at an interest rate of 6.5% due February 15, 2023.		\$ 3,810,000
2003 Issue (Single Family) – Single Family Mortgage Revenue Bonds, 2003A (Redeemed) and 2003B dated August 1, 2003 – \$7,500,000 Revenue Refunding Bonds at interest rates of 4.57% – 5.37% due April 1, 2037.		2,790,742
		<u>6,600,742</u>
Less current maturities		<u>424,064</u>
		<u><u>\$ 6,176,678</u></u>

The debt service requirements as of December 31, 2012, were as follows:

Years Ending December 31	Total to be Paid	Principal	Interest
2013	\$ 814,235	\$ 424,064	\$ 390,171
2014	819,036	451,268	367,768
2015	822,861	479,331	343,530
2016	816,360	498,297	318,063
2017	809,859	518,212	291,647
2018 – 2022	2,758,517	1,689,570	1,068,947
2023 – 2027	<u>2,626,450</u>	<u>2,540,000</u>	<u>86,450</u>
	<u><u>\$ 9,467,318</u></u>	<u><u>\$ 6,600,742</u></u>	<u><u>\$ 2,866,576</u></u>

Shreveport Home Mortgage Authority

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Notes to Financial Statements

December 31, 2012

The 2003A Issue (Single Family) was required to be redeemed in whole through the issuance of a Series 2003B Issue by February 1, 2007. During 2004, \$3.9 million of the Series 2003A Issue was redeemed through the Series 2003B Issue. During 2005, \$3.2 million was redeemed through the Series 2003B Issue. The remaining \$375,251 was redeemed in 2007.

The 1995 Series Bonds outstanding (Single Family – Refunding) were defeased in advance on October 22, 2012. The loss on the early extinguishment of the 1995 Series Bonds was \$101,931.

The bonds in the 2004 Issue (Multi-Family – Refunding) are collateralized by the revenues and other amounts derived by the Authority from the note receivable and the funds and accounts established under the trust indenture. A credit enhancer is also contained in the trust indenture that guarantees that no loss will be incurred on the sale of the property should a default occur on the debt being serviced by the investor.

On February 1, 2004, the Authority issued \$4,360,000 in bonds, the 2004 Multi-Family Housing Revenue Refunding Bonds, to advance refund \$4,360,000 of the 1995 Multi-Family Issue. Bond costs of \$130,569 were paid by the Authority. At December 31, 2012, the principal outstanding on the 2004 bonds was \$3,810,000.

There are a number of limitations and restrictions contained in the various bond indentures. The Authority is in compliance with all significant limitations and restrictions.

Note 5: Restricted Assets

A substantial portion of the amounts reflected in the statement of net position represent assets in such accounts or funds designated under the trust indenture for each Issue to be invested and/or held for subsequent disbursement in such manner and at such time as specifically defined in the respective trust indenture.

All of the assets of the Mortgage Purchase Program Funds are restricted by, and the use thereof is governed by, the trust indentures.

**Independent Auditors' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters Based on an
Audit of the Financial Statements Performed in Accordance with
Government Auditing Standards**

Board of Trustees
Shreveport Home Mortgage Authority
Shreveport, Louisiana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Shreveport Home Mortgage Authority (the Authority), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 27, 2013.

Internal Control Over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

Compliance

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The purpose of this communication is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or compliance. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

June 27, 2013

Board of Trustees
Shreveport Home Mortgage Authority
Shreveport, Louisiana

As part of our audit of the financial statements of Shreveport Home Mortgage Authority (the Authority) as of and for the year ended December 31, 2012, we wish to communicate the following to you.

AUDIT SCOPE AND RESULTS

Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America

An audit performed in accordance with auditing standards generally accepted in the United States of America is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement audit that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the financial statements does not relieve management or those charged with governance of their responsibilities. Our engagement letter more specifically describes your responsibilities.

Qualitative Aspects of Significant Accounting Policies and Practices

Significant Accounting Policies

The Authority's significant accounting policies are described in *Note 1* of the audited financial statements.

Alternative Accounting Treatments

We had discussions with management regarding alternative accounting treatments within accounting principles generally accepted in the United States of America for policies and practices for material items, including recognition, measurement and disclosure considerations related to the accounting for specific transactions as well as general accounting policies, as follows:

No matters are reportable.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following areas involve significant estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

No matters are reportable.

Financial Statement Disclosures

The following areas involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:

No matters are reportable.

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated.

No audit adjustments were proposed.

Auditor's Judgments About the Quality of the Entity's Accounting Principles

During the course of the audit, we made the following observations regarding the Authority's application of accounting principles:

No matters are reportable.

Other Material Written Communications

Listed below are other material written communications between management and us related to the audit:

- Management representation letter *(attached)*

This communication is intended solely for the information and use of management, the Board of Trustees and Louisiana Legislative Audit, and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

June 27, 2013